

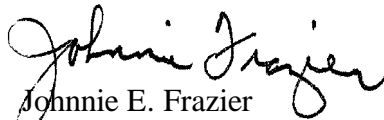


**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 19, 1998

**MEMORANDUM FOR:** Gary Bachula  
Acting Under Secretary for Technology

**FROM:**

  
Johnnie E. Frazier  
Acting Inspector General

**SUBJECT:** Audit of TA's FY 1997 Financial Statements  
Audit Report No. FSC-9868-8-0001

The attached audit report presents the results of the audit of the Technology Administration's (TA) Combined Statements of Financial Position as of September 30, 1997, and 1996, and Combined Statements of Operations and Changes in Net Position for the years then ended. Also provided are reports on TA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by TA.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited consolidated financial statement must be prepared covering all accounts and associated activities of each office, bureau, and activity of the Department. To facilitate the consolidated audit process, the independent certified public accounting firm of Price Waterhouse LLP (PW) was contracted to audit TA's FY 1997 financial statements. The Office of Inspector General defined the audit scope, oversaw the process of selecting the contractor, and oversaw the performance and delivery of the audit.

In the opinion of PW, the financial statements present fairly, in all material respects, the financial position of TA as of September 30, 1997, and 1996, and the results of its operations for the years then ended, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the audit indicate that TA has been successful in establishing internal controls that facilitate the preparation of reliable accounting and financial information. The PW FY 1997 report on internal controls identified no material weaknesses or reportable conditions.

Our office reviewed a draft version of TA's overview to its FY 1997 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993, the legislation that requires government entities to collect and report information on their performance in meeting goals and objectives. We shared our observations and recommendations in a January 12, 1998, discussion paper and a subsequent meeting with TA management. TA was responsive to our comments, making some changes to the FY 1997 overview, while stating additional improvements will be made for FY 1998 and subsequent overviews.

The overview (1) identifies that TA supports two of the three themes contained in the Department's *Strategic Plan*; (2) lists many FY 1997 accomplishments by activity; and (3) includes some discussion of financial position and results. TA can improve its discussion of results by improving the linkage of its results to its goals, objectives, and targeted results; strengthening reported performance measures (e.g., increased outcome and cost-effectiveness measures); and improving the presentation of information to facilitate trend analyses and assessment of whether target levels of performance have been achieved.

In order to improve the usefulness of the overview to decision-makers, such as OMB and the Congress, we encourage TA to address the observations contained in our discussion paper. Also, continued improvement will be needed for the overview to be consistent with OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, to "provide a clear and concise description of the reporting entity and its mission, activities, program and financial results, and financial condition." The OIG realizes that improving the overview is an iterative process and encourages TA to strengthen next year's discussion of the bureau's results.

We recognize TA's commitment to preparing high quality and meaningful financial statements. To continue to meet this objective, it will be necessary that the accounting requirements set forth in OMB Bulletin 97-01 are taken into consideration for preparation of the FY 1998 financial statements. Implementation of OMB Bulletin 97-01 poses tremendous challenges for various reasons. In particular, this bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01, which required two. One of the six statements, the Statement of Net Costs, requires TA to report its costs by sub-organizations and programs, which should be based on the missions and outputs described in TA's GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the federal government has not been required previously to report information in such a manner for financial or budgetary purposes, TA will need to place appropriate emphasis on implementation of OMB Bulletin 97-01.

If you wish to discuss the contents of this report, please contact George E. Ross, Assistant Inspector General for Auditing, at (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Contract Audits Division, at (703) 603-0301. We appreciate the cooperation and courtesies extended by TA during the audit.

cc: W. Scott Gould  
Chief Financial Officer and  
Assistant Secretary for Administration

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